

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

COUNTY OF SANTA CLARA

LOS ALTOS HILLS, CALIFORNIA

FINANCIAL STATEMENTS

WITH SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2006

AND

INDEPENDENT AUDITOR'S REPORT

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION**

For the Year Ended June 30, 2006

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FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION**

For the Year Ended June 30, 2006

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Foothill-De Anza Community
College District
Los Altos Hills, California

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Foothill-De Anza Community College District as of and for the year ended June 30, 2006, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements listed in the aforementioned table of contents present fairly, in all material respects, the financial position of Foothill-De Anza Community College District as of June 30, 2006, and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 29, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis (MD&A) on pages 3 through 8 is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT

(Continued)

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements. The accompanying supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Perry-Smith LLP

Sacramento, California
September 29, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending June 30, 2006

The Management Discussion and Analysis provides an overview of the District's financial activities for the year. The District has prepared the accompanying financial statements in accordance with the Governmental Accounting Standards Board's (GASB) Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments," and GASB Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities." The statements are prepared using the Business Type Activity (BTA) model; this is in compliance with the California Community College Chancellor's Office recommendation to report in a manner consistent with other community college districts.

The annual report consists of three basic financial statements that provide information on the District as a whole:

- The Statement of Net Assets
- The Statement of Revenues, Expenses, and Changes in Net Assets
- The Statement of Cash Flows

Each one of these statements will be discussed.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Fiscal Year Ending June 30, 2006

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Net assets – the difference between assets and liabilities – are one way to measure the financial health of the District.

Condensed Statement of Net Assets (in thousands)

ASSETS	2006	2005	Year to Year Change	Dollar Change
Current assets:				
Cash and cash equivalents	\$ 58,321	\$ 52,610	10.8%	\$ 5,711
Short-term investments	77	75	2.6%	2
Receivables	16,955	21,862	-22.4%	(4,907)
Inventory and other assets	<u>3,432</u>	<u>3,353</u>	2.3%	<u>79</u>
Total current assets	<u>78,785</u>	<u>77,900</u>	1.1%	<u>885</u>
Noncurrent assets:				
Restricted cash and cash equivalents	110,371	90,897	21.4%	19,474
Receivables	2,010	2,116	-5.0%	(106)
Capital assets, net	<u>265,927</u>	<u>216,005</u>	23.1%	<u>49,922</u>
Total noncurrent assets	<u>378,308</u>	<u>309,018</u>	22.4%	<u>69,290</u>
Total assets	<u>\$ 457,093</u>	<u>\$ 386,918</u>	18.1%	<u>\$ 70,175</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 25,128	\$ 25,209	-.3%	\$ (81)
Deferred revenue	11,054	11,912	-7.2%	(858)
Amounts held in trust	2,573	2,590	-.7%	(17)
Long-term liabilities-current portion	<u>6,433</u>	<u>10,580</u>	-39.2%	<u>(4,147)</u>
Total current liabilities	<u>45,188</u>	<u>50,291</u>	-10.1%	<u>(5,103)</u>
Noncurrent liabilities:				
Long-term liabilities, noncurrent portion	3,991	3,487	14.5%	504
Long-term debt, noncurrent portion	<u>260,121</u>	<u>208,863</u>	24.5%	<u>51,258</u>
Total noncurrent liabilities	<u>264,112</u>	<u>212,350</u>	24.4%	<u>51,762</u>
Total liabilities	<u>309,300</u>	<u>262,641</u>	17.8%	<u>46,659</u>
NET ASSETS				
Invested in capital assets, net of related debt	84,499	71,380	18.4%	13,119
Restricted	38,534	33,922	13.6%	4,612
Unrestricted	<u>24,760</u>	<u>18,975</u>	30.5%	<u>5,785</u>
Total net assets	<u>147,793</u>	<u>124,277</u>	18.9%	<u>23,516</u>
Total liabilities and net assets	<u>\$ 457,093</u>	<u>\$ 386,918</u>	18.1%	<u>\$ 70,175</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
Fiscal Year Ending June 30, 2006

Statement of Net Assets (Continued)

- Receivables decreased by 22.4% due to the decrease of receivables from State construction projects.
- Capital assets increased by 23.1%, or approximately \$50 million, in connection with the construction of numerous Measure E capital projects that began in 2001. We anticipate continued growth in capital assets in future years as Measure E projects are completed.
- Restricted cash increased by 21.4%, or approximately \$19.5 million, as a result of the issuance of the Election of 1999 General Obligation Bonds, Series C and Refunding Bonds in September 2005.
- The current portion of long-term debt decreased by approximately \$4.1 million because no TRAN was issued for 2005-2006. The noncurrent portion of long-term debt increased by approximately \$51 million due to the District's issuance of the Election of 1999 General Obligation Bonds, Series C and Refunding Bonds.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the operating results of the District, as well as the non-operating revenue and expenses. State general apportionment, while budgeted for operations, is considered non-operating revenues according to Generally Accepted Accounting Principles.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Fiscal Year Ending June 30, 2006

Condensed Statement of Revenues, Expenses and Changes in Net Assets (in thousands)

	<u>2006</u>	<u>2005</u>	<u>Year to</u> <u>Year Change</u>	<u>Dollar</u> <u>Change</u>
Revenues:				
Operating revenues:				
Net tuition and fees	\$ 30,813	\$ 30,109	2.3%	\$ 704
Grants and contracts, non-capital	26,721	25,845	3.4%	876
Auxiliary enterprise, net	13,253	14,098	-6.0%	(845)
Other	<u>10,766</u>	<u>7,462</u>	44.3%	<u>3,304</u>
Total operating revenues	<u>81,553</u>	<u>77,514</u>	5.2%	<u>4,039</u>
Total operating expense	<u>220,534</u>	<u>208,634</u>	5.7%	<u>11,900</u>
Loss from operations	<u>(138,981)</u>	<u>(131,120)</u>	6.0%	<u>(7,861)</u>
Non-operating revenues (expenses):				
State apportionments, non-capital	65,663	51,419	27.7%	14,244
Local property taxes	68,519	70,180	-2.4%	(1,661)
State taxes and other revenues	5,389	5,536	-2.7%	(147)
Investment income	(893)	539	-265.7%	(1,432)
Interest expense	<u>(8,660)</u>	<u>(7,337)</u>	18.0%	<u>(1,323)</u>
Total non-operating revenues (expenses)	<u>130,018</u>	<u>120,337</u>	8.0%	<u>9,681</u>
Loss before capital revenues	<u>(8,963)</u>	<u>(10,783)</u>	-16.9%	<u>1,820</u>
Capital revenues	<u>32,479</u>	<u>19,803</u>	64.0%	<u>12,676</u>
Increase in net assets	23,516	9,020	160.7%	14,496
Net assets-beginning of year	<u>124,277</u>	<u>115,257</u>	7.8%	<u>9,020</u>
Net assets-end of year	<u>\$ 147,793</u>	<u>\$ 124,277</u>	18.9%	<u>\$ 23,516</u>

Operating revenues increased by 5.2%, or approximately \$4 million. The 44.3% increase in other revenue is due to the increase in interest revenue and the settlement from Enron Corporation.

Non-operating revenue increased by 8%, or approximately \$9.7 million. The increase of the State apportionment is due to the increase of base revenue from the State and an additional funding for Equalization, Growth and Cost of Living Adjustment. The reduction in property tax revenue (including ERAF) as used by the State's realignment of local finances to balance the State budget, was offset by a corresponding increase in State General Fund revenues. The decrease of investment income is due to the unrealized loss from the County's commingled investment pool. The increase of interest expense is due to the issuance of the Election of 1999 General Obligation Bonds, Series C and Refunding Bonds.

Capital revenues increased by approximately \$12.6 million due to the increase of State funding for capital outlay projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Fiscal Year Ending June 30, 2006

Operating Expenses (by natural classification) (in thousands)

	<u>2006</u>	<u>2005</u>	<u>Year to Year Change</u>	<u>Dollar Change</u>
Salaries	\$ 117,306	\$ 114,863	2.1%	\$ 2,443
Benefits	<u>38,150</u>	<u>34,892</u>	9.3%	<u>3,258</u>
Total salaries and benefits	<u>155,456</u>	<u>149,755</u>	3.8%	<u>5,701</u>
Supplies, materials, and other operating expenses and services	47,170	42,606	10.7%	4,564
Utilities	3,792	3,273	15.9%	519
Depreciation	<u>14,116</u>	<u>13,000</u>	8.6%	<u>1,116</u>
Total operating expenses	<u>\$ 220,534</u>	<u>\$ 208,634</u>	5.7%	<u>\$ 11,900</u>

- Total compensation and benefits increased by 3.8% or approximately \$5.7 million. This is a result of the cost of living adjustment for salaries and inflationary increases to medical benefits.
- Supplies, materials, and other operating expenses and services increased by 10.7% due to increased expenses in the capital project fund.
- Depreciation increased by 8.6%, or approximately \$1.1 million, consistent with the increase in capital assets.

Statement of Cash Flows (in thousands)

The Statement of Cash Flows provides information about cash receipts and cash payments during the fiscal year. This statement helps users assess the District's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

	<u>2006</u>	<u>2005</u>	<u>Year to Year Change</u>	<u>Dollar Change</u>
Cash provided by (used in):				
Operating activities	\$ (129,069)	\$ (118,473)	8.9%	\$ (10,596)
Non-capital financing activities	137,217	125,954	8.9%	11,263
Capital and related financing activities	17,689	(51,846)	134.1%	69,535
Investing activities	<u>(652)</u>	<u>5,049</u>	-112.9%	<u>(5,701)</u>
Net increase (decrease) in cash	25,185	(39,316)	164.1%	64,501
Cash-beginning of the fiscal year	<u>143,507</u>	<u>182,823</u>	-21.5%	<u>(39,316)</u>
Cash-end of the fiscal year	<u>\$ 168,692</u>	<u>\$ 143,507</u>	17.5%	<u>\$ 25,185</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
Fiscal Year Ending June 30, 2006

Economic Factors That May Affect the Future

2006-2007 Fiscal Year

The State controls most of the Foothill-De Anza Community College District's operating income through the apportionment process, growth allowances, Cost of Living Adjustments (COLA) and categorical allocations. The District recovered the student enrollment, which declined in 2004-2005 and is projecting another 2% increase in enrollment for 2006-2007. The State economy has improved allowing the State to fully fund anticipated growth and COLA. The Governor signed legislation to reduce the student enrollment fees in January 2007, which will further stimulate student enrollment growth. Finally, because of the improving state economy, the District will receive in excess of \$8 million in "one time" unrestricted funds which will be used over the next 3-4 years to augment programs, supplies and services. The 2006-2007 budget is "structurally balanced" without the use of these one time funds. Negotiations with all unions have been completed for 2006-2007.

The voters of the District approved a \$490.8 million bond at the June 6, 2006 election by an approval rate of 65% (only 55% approval is required for a Prop 39 bond). This funding will be used for new construction, renovation and equipment purchases for the next 15 years. The District received the highest bond ratings provided to any community college in the State when it issued Series C bonds for the Measure E program in September 2005. This is an indication of the financial strength of the District as assessed by the rating agencies.

The District completed an updated actuarial analysis of its unfunded retiree medical liability in August 2006. The "Annual Required Contribution" (ARC) was calculated to be \$975,000 per year for the next 30 year period (amortization period). The staff has recommended that this ARC be funded from the operating budget in 2006-2007 and is part of the Board's Adopted Budget. In approving this plan, the District will be in full compliance with GASB and will have a plan to fully fund the obligation over the allowed 30 year amortization time period. The District has already set aside \$1,140,000 towards this obligation.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET ASSETS

June 30, 2006

ASSETS

Current assets:

Cash and cash equivalents (Note 2)	\$ 58,321,258
Short term investments (Note 2)	77,070
Accounts receivable, net (Note 3)	16,410,850
Student loans receivable, net – current portion	544,010
Stores inventories	1,606,261
Prepaid expenses	<u>1,825,498</u>

Total current assets 78,784,947

Noncurrent assets:

Restricted cash and cash equivalents (Note 2)	110,370,933
Student loans receivable, net – noncurrent portion	2,010,042
Capital assets, net (Note 4)	<u>265,927,546</u>

Total noncurrent assets 378,308,521

Total assets \$ 457,093,468

LIABILITIES

Current Liabilities:

Accounts and claims payable (Note 8)	\$ 22,033,594
Deferred revenue (Note 5)	11,054,458
Compensated absences payable – current portion	3,094,452
Amounts held in trust	2,572,966
Long-term debt – current portion (Note 6)	<u>6,432,562</u>

Total current liabilities 45,188,032

Noncurrent liabilities:

Compensated absences payable – noncurrent portion (Note 6)	1,171,700
Unpaid claims and claim adjustment expenses (Notes 6 and 8)	2,819,400
Long-term debt – noncurrent portion (Note 6)	<u>260,121,032</u>

Total noncurrent liabilities 264,112,132

Total liabilities 309,300,164

Commitments and contingencies (Note 11)

NET ASSETS

Invested in capital assets, net of related debt 84,499,481

Restricted for:

Scholarships and loans	2,829,977
Capital projects	9,611,690
Debt services	9,674,160
Other special purposes	16,418,530
Unrestricted	<u>24,759,466</u>

Total net assets 147,793,304

Total liabilities and net assets \$ 457,093,468

The accompanying notes are an integral part of these financial statements.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT
FOOTHILL-DE ANZA COMMUNITY COLLEGES FOUNDATION
(A Nonprofit Organization)

STATEMENT OF NET ASSETS

June 30, 2006

		<u>Restricted</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>General</u>	<u>Kaider</u>	<u>Total</u>	<u>(Memoran- dum Only)</u>
ASSETS					
Cash in County Treasury (Note 2)	\$ 895,613	\$ 965,330		\$ 965,330	\$ 1,860,943
Investments (Note 2)		19,561,579	\$ 1,968,211	21,529,790	21,529,790
Accounts receivable (Note 3)		91,997		91,997	91,997
Accrued interest receivable		24,883		24,883	24,883
Prepaid expenses		<u>4,790</u>		<u>4,790</u>	<u>4,790</u>
Total assets	<u>\$ 895,613</u>	<u>\$ 20,648,579</u>	<u>\$ 1,968,211</u>	<u>\$ 22,616,790</u>	<u>\$ 23,512,403</u>
LIABILITIES					
Accounts payable and accrued liabilities		\$ 35,167		\$ 35,167	\$ 35,167
Due to other funds of the District		568,944		568,944	568,944
Amounts held in trust		<u>60,174</u>		<u>60,174</u>	<u>60,174</u>
Total liabilities		<u>664,285</u>		<u>664,285</u>	<u>664,285</u>
NET ASSETS					
Unrestricted	\$ 895,613				895,613
Temporarily restricted		8,640,496		8,640,496	8,640,496
Permanently restricted		<u>11,343,798</u>	<u>\$ 1,968,211</u>	<u>13,312,009</u>	<u>13,312,009</u>
Total net assets	<u>895,613</u>	<u>19,984,294</u>	<u>1,968,211</u>	<u>21,952,505</u>	<u>22,848,118</u>
Total liabilities and net assets	<u>\$ 895,613</u>	<u>\$ 20,648,579</u>	<u>\$ 1,968,211</u>	<u>\$ 22,616,790</u>	<u>\$ 23,512,403</u>

The accompanying notes are an integral
part of these financial statements.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2006

Operating revenues:	
Tuition and fees	\$ 34,983,150
Less: scholarship discounts and allowances	<u>(4,170,399)</u>
Net tuition and fees	<u>30,812,751</u>
Grants and contracts, non-capital:	
Federal	11,163,792
State	13,004,899
Local	2,552,374
Auxiliary enterprise sales and charges	13,253,439
Interest on student loans	43,857
Other operating revenues	<u>10,722,303</u>
Total operating revenues	<u>81,553,415</u>
Operating expenses (Note 13):	
Salaries	117,305,838
Benefits (Notes 9 and 10)	38,149,658
Supplies, materials, and other operating expenses and services	47,170,393
Utilities	3,792,426
Depreciation (Note 4)	<u>14,115,676</u>
Total operating expenses	<u>220,533,991</u>
Loss from operations	<u>(138,980,576)</u>
Non-operating revenues (expenses):	
State apportionments, non-capital	65,662,741
Local property taxes (Note 7)	68,519,261
State taxes and other revenues	5,388,653
Investment income, noncapital	(365,020)
Investment income, capital	(527,954)
Interest expense on capital asset-related debt, net	(8,660,288)
Other non-operating revenues	<u>369</u>
Total non-operating revenues (expenses)	<u>130,017,762</u>

(Continued)

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
(Continued)
For the Year Ended June 30, 2006

Loss before capital revenues	<u>\$ (8,962,814)</u>
Capital revenues:	
State apportionment	21,322,359
Local property taxes and revenues	<u>11,156,948</u>
Total capital revenues	<u>32,479,307</u>
Increase in net assets	23,516,493
Net assets, beginning of year	<u>124,276,811</u>
Net assets, end of year	<u>\$ 147,793,304</u>

The accompanying notes are an integral
part of these financial statements.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

**FOOTHILL-DE ANZA COMMUNITY COLLEGES FOUNDATION
(A Nonprofit Organization)**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2006

		<u>Restricted</u>			<u>Total (Memoran- dum Only)</u>
	<u>Unrestricted</u>	<u>General</u>	<u>Kaider</u>	<u>Total</u>	
Revenues:					
Contributions	\$ 83,322	\$ 3,998,114	\$ 25	\$ 3,998,139	\$ 4,081,461
Donated services and facilities (Note 14)	31,752				31,752
Interest and dividend income	102,007	452,387	34,730	487,117	589,124
Change in fair value of investments (Note 2)		962,987	152,104	1,115,091	1,115,091
Other revenues	17,981	265,671		265,671	283,652
Net assets released from restrictions by payments	2,459,667	(2,453,533)	(6,134)	(2,459,667)	
Transfers	<u>1,121,978</u>	<u>(1,038,194)</u>	<u>(83,784)</u>	<u>(1,121,978)</u>	
Total revenues	<u>3,816,707</u>	<u>2,187,432</u>	<u>96,941</u>	<u>2,284,373</u>	<u>6,101,080</u>
Expenses:					
Grants and related activities	3,070,791				3,070,791
Donated services and facilities (Note 14)	<u>31,752</u>				<u>31,752</u>
Total expenses	<u>3,102,543</u>				<u>3,102,543</u>
Changes in net assets	714,164	2,187,432	96,941	2,284,373	2,998,537
Net assets, beginning of year	<u>181,449</u>	<u>17,796,862</u>	<u>1,871,270</u>	<u>19,668,132</u>	<u>19,849,581</u>
Net assets, end of year	<u>\$ 895,613</u>	<u>\$ 19,984,294</u>	<u>\$ 1,968,211</u>	<u>\$ 21,952,505</u>	<u>\$ 22,848,118</u>

The accompanying notes are an integral
part of these financial statements.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2006

Cash flows from operating activities:	
Tuition and fees	\$ 30,798,310
Federal grants and contracts	11,644,168
State grants and contracts	12,914,197
Local grants and contracts	2,873,330
Payments to suppliers	(37,605,398)
Payments to utilities	(4,118,925)
Payment to employees	(117,130,903)
Payment for benefits	(37,464,405)
Payment to students	(9,627,177)
Loans to students	80,414
Auxiliary enterprises sales and charges	13,177,932
Other receipts, net	<u>5,389,754</u>
Net cash used in operating activities	<u>(129,068,703)</u>
Cash flows from noncapital financing activities:	
State appropriations	61,984,876
Local property taxes	68,519,261
State taxes and other revenues	6,730,294
Scholarship and trust receipts	520,496
Scholarship and trust disbursements	(508,648)
Student organization agency receipts	1,367,389
Student organization agency disbursements	<u>(1,396,410)</u>
Net cash provided by noncapital financing activities	<u>137,217,258</u>
Cash flows from capital and related financing activities:	
State appropriations for capital purposes	27,043,674
Local revenue for capital purposes	11,234,350
Proceeds from capital debt	80,069,900
Purchase of capital assets	(64,038,780)
Principal paid on capital debt	(27,959,972)
Interest paid on capital debt, net	<u>(8,660,288)</u>
Net cash provided by capital and related financing activities	<u>17,688,884</u>
Cash flows from investing activities:	
Interest income (expense)	4,499,450
Notes payable	(5,150,000)
Short-term investments	<u>(1,733)</u>
Net cash used in investing activities	<u>(652,283)</u>
Net increase in cash and cash equivalents	25,185,156
Cash and cash equivalents balance, beginning of year	<u>143,507,035</u>
Cash and cash equivalents balance, end of year	<u>\$ 168,692,191</u>

(Continued)

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
(Continued)
For the Year Ended June 30, 2006

Reconciliation of loss from operations to net cash used in operating activities:	
Loss from operations	\$(138,980,576)
Adjustments to reconcile loss from operations to net cash used in operating activities:	
Depreciation expense	14,115,676
Changes in assets and liabilities:	
Receivables, net	1,754,585
Inventories	(16,134)
Prepaid expenses	(63,152)
Accounts payable	(119,225)
Deferred revenue	(363,100)
Compensated absences	125,140
Claims liability	536,150
Interest on investments	<u>(6,058,067)</u>
Net cash used in operating activities	<u><u>\$(129,068,703)</u></u>

The accompanying notes are an integral part of these financial statements.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT
FOOTHILL DE-ANZA COMMUNITY COLLEGES FOUNDATION
(Nonprofit Organization)

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2006

Cash flows from operating activities:

Increase in net assets	\$ 2,998,537
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Increase in accounts receivable	(61,061)
Increase in prepaid expenses	(1,037)
Decrease in accounts payable and accrued liabilities	(56,621)
Decrease in due to other funds	(738,774)
Increase in amounts held in trust	<u>3,514</u>
Net cash provided by operating activities	<u>2,144,558</u>

Cash flows used in investing activities:

Investment purchases	<u>(2,539,400)</u>
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Net decrease in cash and cash equivalents	(394,842)
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Cash and cash equivalents, July 1, 2005	<u>2,255,785</u>
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Cash and cash equivalents, June 30, 2006	<u><u>\$ 1,860,943</u></u>
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Supplemental information:

Noncash investing activities:

Change in fair value of investments	\$ 1,115,091
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The accompanying notes are an integral
part of these financial statements.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Foothill-De Anza Community College District (District) is a political subdivision of the State of California and provides educational services to the local residents of the surrounding area. While the District is a political subdivision of the State, it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14. The District is classified as a state instrumentality under Internal Revenue Code Section 115, and is also classified as a charitable organization under Internal Revenue Code Section 501(c)(3), and is therefore exempt from Federal taxes.

The decision to include potential component units in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP) and GASB Statement 14 as amended by GASB Statement 39. The three criteria for requiring a legally separate, tax-exempt organization to be presented as a component unit are the "direct benefit" criterion, the "entitlement/ability to access" criterion, and the "significance" criterion. The District identified the Foothill-De Anza Community College District Financing Corporation (Financing Corporation) and the Foothill-De Anza Community Colleges Foundation (Foundation) as its potential component units.

The Financing Corporation is an organization whose activities to date have been limited to the issuance of Certificates of Participation and entering into lease arrangements with the District as discussed in Note 6. The District and the Financing Corporation have financial and operational relationships which met the reporting entity definition of GASB Statement 14 for inclusion of the Financing Corporation as a component unit of the District. Accordingly, the financial activities of the Financing Corporation have been blended with the financial statements of the District.

The Foundation is a nonprofit, tax-exempt organization dedicated to providing financial benefits generated from fundraising efforts and investments earnings to the District. The funds contributed by the Foundation to the District are significant to the District's financial statements. The District applied the criteria for identifying component units in accordance with GASB Statement 39 and therefore, the District has classified the Foundation as a component unit that will be discretely presented in the District's financial statements. The Foundation also issues a stand-alone audited, financial report, which can be obtained from the District or the Foundation.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

GASB released Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" in June 1999, which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities," which applies the new reporting standards of GASB Statement No. 34 to public colleges and universities. The GASB then amended those statements in June 2001 with the issuance of GASB Statements No. 37 and No. 38. The District adopted and applied these new standards beginning in 2001-02 as required. In May 2002, the GASB released Statement No. 39, "Determining Whether Certain Organizations Are Component Units," which amends GASB Statement 14, paragraphs 41 and 42, to provide guidance for determining and reporting whether certain organizations are component units. The District adopted and applied this standard for the 2003-04 fiscal year as required. The District now follows the financial statement presentation required by GASB Statements No. 34, 35, 37, 38 and 39. This presentation provides a comprehensive, entity-wide perspective of the District's assets, cash flows, and replaces the fund-group perspective previously required.

Financial Presentation

For financial presentation purposes, the Financing Corporation financial activity has been blended, or combined, with the financial data of the District.

Basis of Accounting

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities. Under this model, the District's financial statements provide a comprehensive one-line look at its financial activities. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. All significant intra-agency transactions have been eliminated.

The Foundation's financial statements are prepared on the accrual basis of accounting. Recognition of contributions is dependent upon whether the contribution is restricted or unrestricted. Net assets are classified on the Statement of Net Assets as unrestricted, temporarily restricted or permanently restricted net assets based on the absence or existence of donor-imposed restrictions.

The District has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The District has elected to not apply FASB pronouncements issued after that date.

Cash and Cash Equivalents

For the purposes of the financial statements, cash equivalents are defined as financial instruments with an original maturity of three months or less. Funds invested in the Santa Clara County Treasury are considered cash equivalents.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash and Cash Equivalents

Cash that is externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, is classified as non current assets in the statement of net assets.

Fair Value of Investments

The District records its investment in Santa Clara County Treasury at fair value. Changes in fair value are reported as revenue in the statement of revenues, expenses and changes in net assets. The fair value of investments, including the Santa Clara County Treasury external investment pool, at June 30, 2006 approximated their carrying value.

Accounts Receivable

Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of California. Accounts receivable also include amounts due from the Federal Government, State and Local Governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts.

Inventory

Inventory consists of stores supplies, cafeteria food, textbooks and educational supplies. Except for bookstore inventories, which are valued using the retail method, inventories are stated at the lower of cost (first-in, first-out method) or market.

Capital Assets

Capital assets are recorded at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the District's capitalization policy included all items with a unit cost of \$5,000 or more, and estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 15 years for portable buildings, 10 years for land improvements, 8 years for most equipment and vehicles, and 3 years for technology equipment such as computers.

The District evaluates capital assets for financial impairment as events or changes in circumstances indicate that the carrying amounts of such assets may not be fully recoverable.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

Compensated absences costs are accrued when earned by employees. Accumulated unpaid employee vacation benefits are recognized at year end as liabilities of the District.

Accumulated Sick Leave

Sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expenditure or expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for certain STRS and PERS employees, when the employee retires.

Deferred Revenue

Revenue from Federal, State and local special projects and programs is recognized when qualified expenditures have been incurred. Funds received but not earned are recorded as deferred revenue until earned.

Net Assets

The District's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the District's total investment in capital assets, net of associated outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component invested in capital assets, net of related debt.

Restricted net assets – expendable: Restricted expendable net assets include resources in which the District is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net assets – nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, State apportionments, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expense toward unrestricted resources, and then towards restricted resources.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

State Apportionments

Certain current year apportionments from the State are based on various financial and statistical information of the previous year. Prior year corrections due to the recalculation in February 2007 will be recorded in the year computed by the State.

On-Behalf Payments

GASB Statement No. 24 requires that direct on-behalf payments for benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers and Public Employees Retirement Systems on behalf of all Community Colleges in California. However, a fiscal advisory issued by the California Department of Education instructed districts not to record revenue and expenditures for these on-behalf payments.

Risk Management

As more fully described in Note 8, the District is partially self-insured with regard to workers' compensation and medical claims and certain other risks. The amount of the outstanding liability at June 30, 2006 for workers' compensation and medical claims includes estimates of future claim payments for known cases as well as provisions for incurred but not reported claims and adverse development on known cases which occurred through that date and is based on information provided by an outside actuary. Outstanding claims which are expected to become due and payable within the subsequent fiscal year are reflected as an accounts and claims payable liability and the balance of the estimated liability is reflected as a long-term liability.

Classification of Revenue

The District has classified its revenues as either operating or nonoperating revenues. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 35 including State appropriations, local property taxes, and investment income. Nearly all the District's expenses are from exchange transactions. Revenues and expenses are classified according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, (3) most Federal, State and local grants and contracts and Federal appropriations, and (4) interest on institutional student loans.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources described in GASB Statement No. 35, such as State appropriations and investment income.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Scholarship Discounts and Allowances

Student tuition and fee revenue are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net assets. Scholarship discounts and allowances represent the difference between stated charges for goods and services provided by the District and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants and other federal, state or nongovernmental programs, are recorded as operating revenues in the District's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the District has recorded a scholarship discount and allowance.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results may differ from those estimates.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

District cash, cash equivalents and investments at June 30, 2006, consisted of the following:

Pooled Funds:	
Cash in County Treasury	\$ 59,796,660
Deposits:	
Cash on hand and in banks	1,097,564
Cash held by Fiscal Agents	<u>107,797,967</u>
Total cash and cash equivalents	<u>168,692,191</u>
Less: restricted cash and cash equivalents:	
Cash held by Fiscal Agents	107,797,967
Cash held in trust	<u>2,572,966</u>
Total restricted cash and cash equivalents	<u>110,370,933</u>
Net cash and cash equivalents	<u>\$ 58,321,258</u>
Investments:	
Certificates of deposit	<u>\$ 77,070</u>

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

As provided for by in Education Code, Section 41001, a significant portion of the District's cash balances is deposited with the County Treasurer for the purpose of increasing interest earnings through County investment activities. Interest earned on such pooled cash balances is allocated proportionately to all funds in the pool.

In accordance with applicable State laws, the Santa Clara County Treasurer may invest in derivative securities. However, at June 30, 2006, the Santa Clara County Treasurer has indicated that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

The California Government Code requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an agency's total deposits and collateral is considered to be held in the name of the District. All cash held by financial institutions is entirely insured or collateralized.

Under provision of the District's policy, and in accordance with Sections 53601 and 53602 of the California Government Code, the District may invest in the following types of investments:

- Securities of the U.S. Government, or its agencies
- Small Business Administration Loans
- Negotiable Certificates of Deposit
- Bankers' Acceptances
- Commercial Paper
- Local Agency Investment Fund (State Pool) Deposits
- Passbook Savings Account Demand Deposits
- Repurchase Agreements

Cash balances held in banks are insured up to \$100,000 by the Federal Depository Insurance Corporation (FDIC). At June 30, 2006, the carrying amount of the District's cash on hand and in banks (including certificates of deposit) was \$1,097,564 and the bank balance was \$974,370. The bank balance amount insured by the FDIC was \$111,440.

Foundation cash and cash equivalents at June 30, 2006, consisted of the following:

Cash in County Treasury:	
Unrestricted	\$ 895,613
Restricted	<u>965,330</u>
Total cash and cash equivalents	<u>\$ 1,860,943</u>

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

The Foundation maintains substantially all of its cash in the Santa Clara County Treasury commingled in a concentration account held by Foothill-De Anza Community College District. The County pools and invests the cash. These pooled funds are carried at cost which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

Interest Rate Risk

The District does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2006, the District had no significant interest rate risk related to cash and investments held.

Credit Risk

The District does not have a formal investment policy that limits its investment choices other than the limitations of State law.

Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2006, the District had no concentration of credit risk.

District Investments

At June 30, 2006, the District's investments, with a carrying value of \$77,070, which equals market value, consist of certificates of deposit. The certificates of deposit are collateralized as required by California State law for any amount exceeding FDIC coverage. Collateral is held in trust by the institutions and monitored by the State Superintendent of Banking.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Foundation Investments

The Foundation investments consist of the Common Fund mutual funds and zero coupon collateralized mortgage obligations, backed by the Government National Mortgage Association. The Foundation investments are pooled and are valued at their fair market value based upon quoted market prices, when available, or estimates of fair value in the balance sheet and unrealized and realized gains and losses are included in the Foundation Statement of Revenues, Expenses and Changes in Net Assets. At June 30, 2006, the Foundation's investments consisted of the following:

Common Fund:	
Multi-strategy Equity Fund	\$ 14,640,430
Multi-strategy Bond Fund	4,940,975
Real estate	<u>1,943,431</u>
Total Common Fund	21,524,836
Collateralized mortgage obligations	<u>4,954</u>
	<u><u>\$ 21,529,790</u></u>

3. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2006 are summarized as follows:

Federal	\$ 1,329,947
State	9,094,633
Local and other	<u>6,693,391</u>
	17,117,971
Less allowance for doubtful accounts	<u>(707,121)</u>
	<u><u>\$ 16,410,850</u></u>

The allowance for doubtful accounts is maintained at an amount which management considers sufficient to fully reserve and provide for the possible uncollectibility of other receivable balances.

At June 30, 2006 the Foundation had \$91,997 in accounts receivable due from local sources.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. CAPITAL ASSETS

Capital asset activity consists of the following:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006
Land	\$ 2,489,776			\$ 2,489,776
Land improvements	27,644,350	\$ 5,746,895		33,391,245
Building improvements	78,466,527	17,623,566		96,090,093
Portable buildings	5,237,527			5,237,527
Buildings	135,526,081	2,817,437		138,343,518
Equipment	18,127,865	1,893,184	\$ 40,400	19,980,649
Software	1,342,493	142,214		1,484,707
Construction work in progress	<u>42,085,565</u>	<u>62,799,359</u>	<u>26,983,875</u>	<u>77,901,049</u>
Total	<u>310,920,184</u>	<u>91,022,655</u>	<u>27,024,275</u>	<u>374,918,564</u>
Less accumulated depreciation:				
Land improvements	5,873,548	2,619,307		8,492,855
Building improvements	38,340,119	7,181,680		45,521,799
Portable buildings	1,127,200	349,169		1,476,369
Buildings	33,406,793	2,527,788		35,934,581
Equipment	15,131,963	1,177,463	40,400	16,269,026
Software	<u>1,036,119</u>	<u>260,269</u>		<u>1,296,388</u>
Total	<u>94,915,742</u>	<u>14,115,676</u>	<u>40,400</u>	<u>108,991,018</u>
Capital assets, net	<u>\$ 216,004,442</u>	<u>\$ 76,906,979</u>	<u>\$ 26,983,875</u>	<u>\$ 265,927,546</u>

5. DEFERRED REVENUE AND DEFERRED SUPPORT

Deferred revenue consisted of the following:

Deferred Federal and State revenue	\$ 5,590,235
Deferred student fees	1,384,262
Deferred tuition and other student enrollment fees	2,970,601
Deferred Celebrity Forum ticket sales	1,068,780
Deferred event sales	<u>40,580</u>
Total deferred revenue	<u>\$ 11,054,458</u>

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

6. LONG-TERM DEBT

Long-term debt at June 30, 2006 consisted of the following:

<u>Description</u>	<u>Year of Issue</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Original Amount</u>	<u>Balance June 30, 2006</u>
General Obligation Bonds, Series A	2000	4.30%-6.26%	2030	\$ 99,995,036	\$ 31,055,036
General Obligation Bonds, Series B	2004	2.00%-5.79%	2036	\$ 90,100,063	65,480,063
General Obligation Bonds, Series C	2005	3.00%-5.03%	2036	\$ 57,904,900	57,904,900
General Obligation Refunding Bonds, Series A	2003	2.00%-5.00%	2030	\$ 67,475,000	63,655,000
General Obligation Refunding Bonds, Series B	2005	3.00%-5.25%	2021	\$ 22,165,000	22,165,000
Financing Corporation Certificates of Participation	1997	3.80%-5.05%	2012	\$ 12,520,000	4,560,000
Refunding Certificates of Participation	2003	1.00%-4.375%	2022	\$ 18,275,000	15,880,000
Capitalized lease obligations	1999-2005	3.67%-5.978%	2009-2020	\$ 9,005,573	5,833,595
Student Center revenue bonds	1968	3.00%	2006	\$ 600,000	<u>20,000</u>
Total long-term debt					266,553,594
Less current portion of long- term debt					<u>(6,432,562)</u>
					260,121,032
Compensated absences payable - noncurrent					1,171,700
Claims payable (Note 8)					<u>2,819,400</u>
Total noncurrent liabilities					<u>\$ 264,112,132</u>

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

6. LONG-TERM DEBT (Continued)

The revenue bonds are collateralized by revenue from the student centers. The annual debt service for these bonds is provided by student fees. The capitalized lease obligations are generally collateralized by the leased property. The annual debt service for these leases is paid from the operating revenues of the District.

Changes in general long-term debt (excluding compensated absences and claims payable) are as follows:

	General Obligation Bonds Series A	General Obligation Bonds Series B	General Obligation Bonds Series C	General Obligation Refunding Bonds Series A	General Obligation Refunding Bonds Series B	Financing COPs	Refunding COPs	Capitalized Lease Obligations	Student Center Revenue Bonds	Total
Balance, July 1, 2005	\$ 31,350,036	\$ 90,100,063		\$ 63,875,000		\$ 5,805,000	\$ 16,640,000	\$ 6,633,567	\$ 40,000	\$ 214,443,666
New issuance			\$ 57,904,900		\$ 22,165,000					80,069,900
Debt retirement		22,380,000								22,380,000
Principal payments	295,000	2,240,000		220,000		1,245,000	760,000	799,972	20,000	5,579,972
Balance, June 30, 2006	<u>\$ 31,055,036</u>	<u>\$ 65,480,063</u>	<u>\$ 57,904,900</u>	<u>\$ 63,655,000</u>	<u>\$ 22,165,000</u>	<u>\$ 4,560,000</u>	<u>\$ 15,880,000</u>	<u>\$ 5,833,595</u>	<u>\$ 20,000</u>	<u>\$ 266,553,594</u>

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

6. LONG-TERM DEBT (Continued)

The general long-term debt maturity schedules (excluding compensated absences and claims payable) is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>General Obligation Bonds, Series A</u>			
2007	\$ 585,000	\$ 469,055	\$ 1,054,055
2008	900,000	434,450	1,334,450
2009	1,425,000	379,100	1,804,100
2010	2,000,000	294,900	2,294,900
2011	2,000,000	194,900	2,194,900
2012-2016	4,276,833	2,730,617	7,007,450
2017-2021	9,450,314	18,769,686	28,220,000
2022-2026	5,048,515	15,941,485	20,990,000
2027-2031	<u>5,369,374</u>	<u>25,260,626</u>	<u>30,630,000</u>
	<u>\$ 31,055,036</u>	<u>\$ 64,474,819</u>	<u>\$ 95,529,855</u>
<u>General Obligation Bonds, Series B</u>			
2007	\$ 2,605,000	\$ 1,254,218	\$ 3,859,218
2008	695,000	1,214,010	1,909,010
2009	720,000	1,197,005	1,917,005
2010	750,000	1,176,395	1,926,395
2011	1,150,000	1,142,145	2,292,145
2012-2016	6,835,000	4,775,488	11,610,488
2017-2021	2,735,000	3,619,935	6,354,935
2022-2026	16,234,739	11,556,111	27,790,850
2027-2031	10,756,045	33,408,955	44,165,000
2032-2036	19,015,012	85,564,988	104,580,000
2037-2042	<u>3,984,267</u>	<u>22,005,733</u>	<u>25,990,000</u>
	<u>\$ 65,480,063</u>	<u>\$ 166,914,983</u>	<u>\$ 232,395,046</u>

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

6. LONG-TERM DEBT (Continued)

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>General Obligation Bonds, Series C</u>			
2007		\$ 1,816,642	\$ 1,816,642
2008	\$ 52,647	1,815,852	1,868,499
2009	90,000	1,813,713	1,903,713
2010	85,000	1,811,088	1,896,088
2011	340,000	1,804,713	2,144,713
2012-2016	3,580,000	8,692,206	12,272,206
2017-2021	8,415,000	7,260,875	15,675,875
2022-2026	9,315,580	11,014,671	20,330,251
2027-2031	7,252,800	19,838,450	27,091,250
2032-2036	23,013,873	31,449,251	54,463,124
2037-2042	<u>5,760,000</u>	<u>144,000</u>	<u>5,904,000</u>
	<u>\$ 57,904,900</u>	<u>\$ 87,461,461</u>	<u>\$ 145,366,361</u>
 <u>General Obligation Refunding Bonds, Series A</u>			
2007	\$ 220,000	\$ 3,133,289	\$ 3,353,289
2008	225,000	3,128,839	3,353,839
2009	230,000	3,123,886	3,353,886
2010	235,000	3,118,129	3,353,129
2011	245,000	3,111,521	3,356,521
2012-2016	11,435,000	14,105,613	25,540,613
2017-2021	1,225,000	12,478,497	13,703,497
2022-2026	20,865,000	9,921,313	30,786,313
2027-2031	28,975,000	3,800,375	32,775,375
2032-2036	<u></u>	<u>163,000</u>	<u>163,000</u>
	<u>\$ 63,655,000</u>	<u>\$ 56,084,462</u>	<u>\$ 119,739,462</u>

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

6. LONG-TERM DEBT (Continued)

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>General Obligation Refunding Bonds, Series B</u>			
2007	\$ 155,000	\$ 1,157,850	\$ 1,312,850
2008		1,155,525	1,155,525
2009		1,155,525	1,155,525
2010		1,155,525	1,155,525
2011		1,155,525	1,155,525
2012-2016	2,330,000	5,716,463	8,046,463
2017-2021	14,750,000	3,736,163	18,486,163
2022-2026	<u>4,930,000</u>	<u>129,413</u>	<u>5,059,413</u>
	<u>\$ 22,165,000</u>	<u>\$ 15,361,989</u>	<u>\$ 37,526,989</u>
<u>Financing COPs</u>			
2007	\$ 1,300,000	\$ 215,280	\$ 1,515,280
2008	595,000	156,780	751,780
2009	620,000	129,410	749,410
2010	650,000	100,270	750,270
2011	680,000	69,070	749,070
2012	<u>715,000</u>	<u>35,750</u>	<u>750,750</u>
	<u>\$ 4,560,000</u>	<u>\$ 706,560</u>	<u>\$ 5,266,560</u>
<u>Refunding COPs</u>			
2007	\$ 775,000	\$ 575,650	\$ 1,350,650
2008	790,000	560,000	1,350,000
2009	805,000	542,239	1,347,239
2010	830,000	520,965	1,350,965
2011	850,000	496,378	1,346,378
2012-2016	4,720,000	2,023,629	6,743,629
2017-2021	5,790,000	953,975	6,743,975
2022-2026	<u>1,320,000</u>	<u>28,875</u>	<u>1,348,875</u>
	<u>\$ 15,880,000</u>	<u>\$ 5,701,711</u>	<u>\$ 21,581,711</u>

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

6. LONG-TERM DEBT (Continued)

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>Capitalized Lease Obligations</u>			
2007	\$ 772,562	\$ 258,886	\$ 1,031,448
2008	545,271	219,690	764,961
2009	570,579	194,383	764,962
2010	597,086	167,876	764,962
2011	465,453	141,204	606,657
2012-2016	1,854,097	393,783	2,247,880
2017-2021	<u>1,028,547</u>	<u>98,078</u>	<u>1,126,625</u>
	<u>\$ 5,833,595</u>	<u>\$ 1,473,900</u>	<u>\$ 7,307,495</u>
<u>Student Center Revenue Bonds</u>			
2007	<u>\$ 20,000</u>	<u>\$ 300</u>	<u>\$ 20,300</u>
<u>Total</u>			
2007	\$ 6,432,562	\$ 8,881,170	\$ 15,313,732
2008	3,802,918	8,685,146	12,488,064
2009	4,460,579	8,535,261	12,995,840
2010	5,147,086	8,345,148	13,492,234
2011	5,730,453	8,115,456	13,845,909
2012-2016	35,745,930	38,473,549	74,219,479
2017-2021	43,393,861	46,917,209	90,311,070
2022-2026	57,713,834	48,591,868	106,305,702
2027-2031	52,353,219	82,308,406	134,661,625
2032-2036	42,028,885	117,177,239	159,206,124
2037-2041	<u>9,744,267</u>	<u>22,149,733</u>	<u>31,894,000</u>
	<u>\$ 266,553,594</u>	<u>\$ 398,180,185</u>	<u>\$ 664,732,779</u>

Certificates of Participation

On October 1, 1997, the Financing Corporation issued Certificates of Participation (COPs) in the amount of \$12,520,000 to provide proceeds for the acquisition, construction and installation of certain electrical, technology and air conditioning equipment, to make repairs and improvements to existing buildings and to defease an existing COPs. The COPs bear effective interest rates ranging from 3.8% to 5% and mature through 2012.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

6. LONG-TERM DEBT (Continued)

Certificates of Participation (Continued)

In June 2003, the Financing Corporation issued \$18,275,000 of Certificates of Participation with effective interest rates ranging from 1% to 4.375% and maturing 2004 through 2021. The Certificate proceeds are being used to advance refunds to the outstanding Advanced Refunding COPs and certain debt issue costs and interest.

General Obligation Bonds

The District, Santa Clara County, California, Election of 1999 General Obligation Bonds, Series A (the "Bonds") were authorized at an election of registered voters held on November 2, 1999, at which two-thirds of the persons voting on the proposition voted to authorize the issuance and sale of \$248,000,000 in principal amount of general obligation bonds of the District. The Bonds are being issued to construct and repair college educational facilities. Accordingly, the District sold bonds totaling \$99,995,036 on May 2, 2000.

In October 2002, the District issued General Obligation Bonds in the amount of \$67,475,000 for the purpose of refunding a portion of the 1999 Series A General Obligation Bonds.

In September 2003, the District issued Series B, 1999 General Obligation Bonds aggregating \$90,100,063. The bonds mature through 2036 and bear interest at rates ranging from 2% to 6%. The proceeds from the issuance will be used to construct and modernize education facilities.

In September 2005, the District issued Series C, 1999 General Obligation Bonds aggregating \$57,904,900. The bonds mature through 2036 and bear interest rates from 3.00% to 5.03%. The proceeds from the issuance will be used to construct and modernize college educational facilities. The District also issued General Obligation Refunding Bonds in the amount of \$22,165,000 for the purpose of refunding a portion of the aggregate amount outstanding of the Series B 1999 General Obligation Bonds.

7. PROPERTY TAXES

All property taxes are levied and collected by the Tax Assessor of the County of Santa Clara and paid upon collection to the various taxing entities including the District. Secured taxes are levied on July 1 and are due in two installments on November 1 and February 1, and become delinquent on December 10 and April 10, respectively. The lien date for secured and unsecured property taxes is March 1 of the preceding fiscal year.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

8. SELF-INSURANCE PROGRAM

Effective March 1, 2003, the District is self-insured for certain risks and employee benefits. Workers' compensation claims are self-insured to \$250,000. Excess insurance has been purchased which covers workers' compensation claims between \$250,000 and \$10,000,000. The estimate of incurred but not reported and reported claims was actuarially determined based upon historical experience and actuarial assumptions. The current and long-term portions of the liability for the unpaid claims for workers' compensation losses as of June 30, 2006 were \$901,900 and \$2,753,100, respectively.

The District is also self-insured for health care claims of employees participating in the District's health care plans. The District carries stop loss insurance to limit its aggregate liability to 125% of the expected paid claims and its individual claim liability limit to \$100,000 per care year. The current and long-term portions of the liability for health care claims at June 30, 2006 were \$2,240,890 and \$66,300, respectively.

The claims reserve activity for the year ended June 30, 2006 is as follows:

Unpaid claims and claim adjustment expenses, beginning of year	<u>\$ 5,183,205</u>
Incurred claims and claim adjustment expenses:	
Provision for covered events of the current year	12,900,986
Provision for covered events of prior years	<u>298,094</u>
Total incurred claims and claims adjustment expenses	13,199,080
Payments	
Claims and claim adjustment expenses	<u>12,420,095</u>
Total unpaid claims and claim adjustment expenses, end of year	5,962,190
Less current portion included in accounts and claims payable	<u>3,142,790</u>
Total non-current unpaid claims and claim adjustment expenses, end of year	<u>\$ 2,819,400</u>

9. EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' retirement System, and classified employees are members of the Public Employees' Retirement System.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

9. EMPLOYEE RETIREMENT SYSTEMS (Continued)

State Teachers' Retirement System (STRS)

Plan Description

All certificated employees and those employees meeting minimum standards adopted by the Board of Governors of the California Community Colleges and employed 50 percent or more of a full-time equivalent position participate in the Defined Benefit Plan (DB Plan). Part-time educators hired under a contract of less than 50 percent or on an hourly or daily basis without contract may elect membership in the Cash Balance Benefit Program (CB Benefit Program). The State Teachers' Retirement Law (Part 13 of the *California Education Code*, Section 22000 et seq.) established benefit provisions for STRS. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 7667 Folsom Boulevard, Sacramento, California 95851.

The State Teachers' Retirement Plan (STRP), a defined benefit pension plan, provides retirement, disability, and death benefits, and depending on which component of the STRP the employee is in, postretirement cost-of-living adjustments may also be offered. Employees in the DB Plan attaining the age of 60 with five years of credited California service (service) are eligible for "normal" retirement and are entitled to a monthly benefit of two percent of their final compensation for each year of service. Final compensation is generally defined as the average salary earnable for the highest three consecutive years of service. The plan permits early retirement options at age 55 or as early as age 50 with at least 30 years of service. Disability benefits of up to 90 percent of final compensation to members with five years of service. After five years of credited service, members become 100 percent vested in retirement benefits earned to date. If a member's employment is terminated, the accumulated member contributions are refundable. The features of the CB Benefit Program include immediate vesting, variable contribution rates that can be bargained, guaranteed interest rates, and flexible retirement options. Participation in the CB benefit plan is optional; however, if the employee selects the CB benefit plan and their basis of employment changes to half time or more, the member will automatically become a member of the DB Plan.

Funding Policy

Active members of the DB Plan are required to contribute 8% of their salary while the district is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2005-06 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The CB Benefit Program is an alternative STRS contribution plan for instructors. Instructors who choose not to sign up for the DB Plan or FICA may participate in the CB Benefit Program. The district contribution rate for the CB Benefit Program is always a minimum of 4% with the sum of the district and employee contribution always being equal or greater than 8%.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

9. EMPLOYEE RETIREMENT SYSTEMS (Continued)

State Teachers' Retirement System (STRS) (Continued)

Annual Pension Cost

The District's total contributions to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$4,848,403, \$4,662,893 and \$4,696,411, respectively and equal 100% of the required contributions for each year. The State of California may make additional direct payments for retirement benefits to the STRS on behalf of all community colleges in the State. The revenue and expenditures associated with these payments, if any, have not been included in these financial statements. In their most recent actuarial valuation of the DB Plan as of June 30, 2001, the independent actuaries for STRS determined that, at June 30, 2001, the actuarial value of the DB program's actuarial accrued liabilities exceeded the program's actuarial value of assets by \$2.2 billion. Based on this valuation, the current statutory contributions are sufficient to fund normal cost and amortize the actuarial unfunded obligation of \$2.2 billion by 2030. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions and other membership related factors. In their most recent actuarial valuation of the CB Plan as of June 30, 2001, the independent actuaries for STRS determined that, at June 30, 2001, the actuarial value of the CB program's actuarial accrued liabilities exceeded the program's actuarial value of assets by \$1.2 million. The STRS management is continually evaluating the impact of market fluctuations on the assets of the CB Program. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions and other membership related factors.

California Public Employees' Retirement System (CalPERS)

Plan Description

All full-time classified employees participate in the CalPERS, an agent multiple employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. Employees are eligible for retirement as early as age 50 with five years of service. At age 55, the employee is entitled to a monthly benefit of 2.0 percent of final compensation for each year of service credit. Retirement compensation is less if the plan is coordinated with Social Security. Retirement after age 55 increases the monthly benefit percentage rate to a maximum of 2.5 percent at age 63. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from the Fund, members' accumulated contributions are refundable with interest credited through the date of separation. The Public Employees' Retirement Law (Part 3 of the *California Government Code*, Section 20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

9. EMPLOYEE RETIREMENT SYSTEMS (Continued)

California Public Employees' Retirement System (CalPERS) (Continued)

Funding Policy

Active plan members are required to contribute 7% of their salary and the district is required to contribute an actuarially determined rate. The district's contribution rate to CalPERS for fiscal year 2002-03 was 2.894% beginning with the first pay period ending in July 2002; CalPERS then lowered the rate to 2.771% beginning with the first pay period ending in February 2003. On May 16, 2003, CalPERS approved a school employer contribution rate of 10.42% beginning with the first pay period that ended in July 2003. The required employer contribution rate for fiscal year 2005-2006 was 9.116% of annual payroll.

Annual Pension Cost

The District's contributions to CalPERS for fiscal years ending June 30, 2006, 2005 and 2004 were \$3,818,468, \$4,086,954 and \$4,119,523, respectively, and equaled 100 percent of the required contributions for each year. The actuarial assumptions used as part of the June 30, 2001, actuarial valuation (the most recent actuarial information available) included (a) an 8.25% investment rate of return (net of administrative expense); (b) an overall growth in payroll of 3.75% annually; and (c) an inflation component of 3.5% compounded annually that is a component of assumed wage growth, and assumed future post-retirement cost of living increases. The actuarial value of pension fund assets was determined by using a technique to smooth the effect of short-term volatility in the market value of investments.

10. POST-RETIREMENT HEALTH CARE BENEFITS

In addition to the pension benefits described in Note 9, the District provides post-retirement health care benefits to employees hired prior to July 1, 1997 and who retire from the District and meet the specific eligibility requirements set forth in their prospective employment contracts.

The District pays health care insurance premiums to maintain the level of coverage enjoyed by the retiree immediately preceding retirement up to age 65. After Medicare coverage begins, these benefits become supplemental to Medicare. Expenditures for post-retirement health care benefits are recognized as the premiums are paid. For the year ended June 30, 2006, expenditures of approximately \$6,841,000 were recognized for post-retirement health care benefits.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

11. COMMITMENTS AND CONTINGENCIES

State Controller's Office Audit

During 2004, the California State Controller's Office completed an audit of certain mandated costs claimed for reimbursement. The audit, which covered the period from July 1, 1999 through June 30, 2002, concluded that the State had overpaid the District by approximately \$1,225,000.

District management is aggressively pursuing the appeals process. However, there can be no assurance that management will be successful in their appeal. The District estimated its ultimate liability to be approximately \$1,129,000.

Contingent Liabilities

The District has received Federal and State funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could result in expenditure disallowances under terms of the grants, it is management's opinion that any required reimbursements or future revenue offsets subsequently determined will not have a material effect on the District's financial position.

Operating Leases

Future minimum rental payments under all noncancelable operating leases with initial or remaining lease terms in excess of one year as of June 30, 2006, are as follows:

<u>Years Ending</u> <u>June 30,</u>	
2007	\$ 1,358,705
2008	1,505,613
2009	1,789,566
2010	2,138,829
2011	<u>2,568,423</u>
	<u>\$ 9,361,136</u>

Proposition 39 – 2006 Measure C General Obligation Bonds

On June 6, 2006, the District was authorized by a sixty-five percent majority of registered voters to issue and sell \$490,800,000 of 2006 General Obligation Bonds. The bonds, when issued, will be used for new construction, renovations and equipment purchases. Terms and interest rates for the bonds have not yet been determined.

Construction Commitments

As of June 30, 2006, the District has approximately \$45 million in outstanding commitments on construction contracts.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

12. JOINT POWERS AGREEMENTS

Schools Excess Liability Fund

The District is a participant in the Schools Excess Liability Fund (SELF), a statewide Joint Powers Agency established as a program to pool excess liability and workers' compensation coverage for participating California public educational agencies.

The Agency is governed by an Executive Board consisting of representatives from member districts. The Executive Board controls the operations of SELF, including selections of management and approval of operating budgets. The following is a summary of financial information for SELF at June 30, 2005 (the most recent information available):

Total assets	\$ 177,635,435
Total liabilities	\$ 174,412,337
Total net assets	\$ 3,223,098
Total revenues	\$ 34,654,122
Total expenses	\$ 60,768,157
Total other income (expense)	\$ 3,541,357

The relationship between Foothill-De Anza Community College District and the Joint Powers Authority is such that SELF is not a component unit of the District for financial reporting purposes.

South Bay Regional Public Safety Training Consortium

The District is a participant in the South Bay Regional Public Safety Training Consortium (SBRPSTC) established as a program to provide training and educational programs that will be responsive to the needs of the participating California Community College District public safety agencies.

The consortium is governed by a Board of Directors consisting of one representative and one alternate representative from each Community College District. The representatives shall be appointed by the Governing Board of the member Community College District.

The Board of Directors controls the operations of SBRPSTC and is authorized to make and enter into contracts: to employ personnel; to incur debts, liabilities or obligations; to acquire, hold or dispose of property; to receive gifts, contributions, and donations of property, fund services, and other forms of assistance from persons, firms, corporations and governmental agencies; and to sue and be sued in its own name.

The following is a summary of financial information for SBRPSTC at June 30, 2006:

Total assets	\$ 5,099,562
Total liabilities	\$ 1,601,093
Total net assets	\$ 3,498,469
Total revenues	\$ 6,753,384
Total expenses	\$ 6,323,201

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

12. JOINT POWERS AGREEMENTS (Continued)

South Bay Regional Public Safety Training Consortium (Continued)

The relationship between Foothill-De Anza Community College District and the Joint Powers Authority is such that SBRPSTC is not a component unit of the District for financial reporting purposes.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

13. OPERATING EXPENSES

The following schedule details the functional classifications of the operating expenses reported in the statement of revenues, expenses and changes in net assets for the year ended June 30, 2006.

Functional Classifications	Salaries	Benefits	Supplies, Materials and Other Operating Expenses	Utilities	Depreciation	Total
Instruction	\$ 67,800,122	\$ 15,595,697	\$ 2,670,048	\$ 5,383	\$	\$ 86,071,250
Academic Support	10,079,220	3,433,837	2,700,606	12,945		16,226,608
Student Services	11,161,920	4,054,052	2,486,849	12,556		17,715,377
Operation and Maintenance of Plant	5,781,019	2,240,410	1,500,009	3,504,160		13,025,598
Institution support	13,223,469	10,538,371	14,017,653	38,532		37,818,025
Community Services & Economic Development	1,299,905	361,523	2,756,455	14,307		4,432,190
Auxiliary Operations	7,511,758	1,925,386	12,207,220	204,543		21,848,907
Student Aid	448,425	382	8,831,553			9,280,360
Depreciation (Note 4)					\$ 14,115,676	14,115,676
	<u>\$ 117,305,838</u>	<u>\$ 38,149,658</u>	<u>\$ 47,170,393</u>	<u>\$ 3,792,426</u>	<u>\$ 14,115,676</u>	<u>\$ 220,533,991</u>

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

14. DONATED SERVICES AND FACILITIES

Donated services and facilities to the Foothill-De Anza Community Colleges Foundation totaling \$31,752 for the year ended June 30, 2006 consisted of accounting and management support, comprehensive insurance, office space, and other miscellaneous internal services as provided by the District.

The valuation of such services and facilities is determined based upon various factors including employee salaries and benefits, office rent, and certain other operating expenses. All significant donated services and facilities and related costs are recognized and reported annually.

15. SUBSEQUENT EVENT

Certificates of Participation

On October 2, 2006, the District approved \$25,000,000 of Certificates of Participation (COPs). The issuance consists of \$9,800,000 of Series A COPs and \$15,200,000 of Series B COPs. Series A will be utilized to complete various on-going construction projects and to purchase fixtures for the Foothill College Bookstore. Series B will be utilized to provide short-term financing for Measure C projects. The District expects to issue Series A in November 2006 and has not determined an expected issuance date for Series B. Terms and interest rates for the COPs have not yet been determined.

SUPPLEMENTAL INFORMATION

**INDEPENDENT AUDITOR'S REPORT ON
SUPPLEMENTAL INFORMATION**

Board of Trustees
Foothill-De Anza Community
College District
Los Altos Hills, California

We have audited the basic financial statements of Foothill-De Anza Community College District as of and for the year ended June 30, 2006, and have issued our report thereon dated September 29, 2006. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards for financial and compliance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the *California Community Colleges Contracted District Audit Manual*, presented by the Chancellor's office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental financial and statistical information is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Foothill-De Anza Community College District and includes the following schedules:

- Organization
- Schedule of Federal Financial Awards
- Schedule of State Financial Awards
- Schedule of Workload Measures for State General Apportionment
- Schedule of Annual Apprenticeship Hours of Instruction
- Reconciliation of Annual Financial and Budget Report (CCFS-311) with Audited Basic Financial Statements
- Notes to Supplemental Information

**INDEPENDENT AUDITOR'S REPORT ON
SUPPLEMENTAL INFORMATION**

(Continued)

The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Perry-Smith LLP

Sacramento, California
September 29, 2006

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

ORGANIZATION

June 30, 2006

The Foothill-De Anza Community College District was established on January 15, 1957, and comprises an area of approximately 105 square miles in Santa Clara County, California. There were no changes in the boundaries of the District during the current year. The District operates two community colleges, Foothill and De Anza.

The Board of Trustees and District Administration for the fiscal year ended June 30, 2006 were composed of the following members:

BOARD OF TRUSTEES

<u>Members</u>	<u>Office</u>	<u>Term Expires</u>
Betsy Bechtel	President	November 2007
Hal Plotkin	Vice President	November 2007
Paul Fong	Trustee	November 2009
Laura Casas Frier	Trustee	November 2007
Bruce Swenson	Trustee	November 2009
Adrian Diaz	Student Trustee	May 2007
Joseph Derflinger	Student Trustee	May 2007

DISTRICT ADMINISTRATION

Martha Kanter, Ed.D.
Chancellor

Penny Patz, Ed.D.
Interim President, Foothill College

M. Brian Murphy, Ph.D.
President, De Anza College

DISTRICT FISCAL ADMINISTRATION

Mike Brandy
Vice Chancellor, Business Services

Hector Quinonez
District Controller

Bernata Slater
Director, Budget Operations

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FEDERAL FINANCIAL AWARDS

For the Year Ended June 30, 2006

<u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>Department of Education</u>			
Student Financial Aid Cluster:			
Federal College Work Study	84.033		\$ 361,485
Federal Pell Grant Program – Grants	84.063		7,221,045
Federal Pell Grant Program – Administration	84.063		15,705
Federal Supplemental Education Opportunity Grant	84.007		402,840
Fund for the Improvement of Post- secondary Education	84.116		<u>128,274</u>
Subtotal Student Financial Aid Cluster			<u>8,129,349</u>
Vocational Education	84.048	03577	790,329
Workforce Investment Act	84.048		136,520
Title IV, Part A, Child Care Access – Parents in School	84.335A		<u>42,677</u>
Subtotal Department of Education			<u>9,098,075</u>
<u>National Science Foundation</u>			
National Science Foundation DEFP	47.076		63,576
National Science Foundation Tech Ed CMU	47.076		313,839
National Science Foundation Animation	47.076		<u>67,296</u>
Subtotal National Science Foundation			<u>444,711</u>
<u>Department of Health and Human Services</u>			
Temporary Assistance for Needy Families (TANF)	93.558		45,386
Medical Assistance Program (MAA)	93.778		<u>65,579</u>
Subtotal Department of Health and Human Services			<u>110,965</u>
<u>Department of Housing and Urban Development</u>			
EDI/De Anza Planetarium	14.UNK		74,558

(Continued)

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FEDERAL FINANCIAL AWARDS

(Continued)

For the Year Ended June 30, 2006

<u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>Small Business Administration</u>			
Small Business Development Center	59.037		192,179
<u>Department of Agriculture</u>			
Child Care Program	10.558		21,132
<u>Corporation for National and Community Service</u>			
Americorps	94.006		56,330
NASA/Ames Internship Program	NGT2-1001		1,150,364
TAA/NAFTA	NGT2-1001		<u>14,678</u>
Total Federal Categorical Awards and Allowances			<u>\$ 11,163,792</u>

See accompanying notes to
supplemental information.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL AWARDS

For the Year Ended June 30, 2006

	Program Entitlements			Program Revenues				Program Expend- itures
	Prior Year Carry- forward	Current Entitlement	Total Entitlement	Cash Received	Accounts Receivable	Deferred Revenue/ Accounts Payable	Total	
Extended Opportunity Programs and Services		\$ 1,749,642	\$ 1,749,642	\$ 1,749,642		\$ 2,578	\$ 1,747,064	\$ 1,747,064
Cooperative Agencies Resources for Education		135,699	135,699	135,699		2,991	132,708	132,708
Disabled Student Programs & Services	\$ 247,481	3,176,151	3,423,632	3,176,151			3,176,151	3,094,913
Deferred Maintenance Costs	445,100	432,588	877,688	432,587			432,587	432,587
Matriculation	1	1,442,844	1,442,845	1,442,845			1,442,845	1,442,845
Matriculation (non-credit)		71,637	71,637	71,637			71,637	71,637
AB 1725 Staff Development	48,507		48,507	44,229		40,252	3,977	3,977
AB 1725 Staff Diversity	75,418	31,824	107,242	107,242		74,327	32,915	32,915
Economic Development		577,479	577,479	512,636	\$ 64,843		577,479	577,479
Child Development Tax Bailout		747,336	747,336	747,336			747,336	747,336
Child Development Center		183,787	183,787	183,764	23		183,787	183,787
Child Care Pre-K Resource		1,170	1,170		1,170		1,170	1,170
Child Care Infant/Toddler Resource	2,463	5,213	7,676	2,000	3,213		5,213	7,676
High Tech Center Training Unit	11,739	943,000	954,739	954,739		61,041	893,698	893,698
Hazardous Substances		70,954	70,954	70,954			70,954	70,954
Child Care Food Program		1,025	1,025	549	476		1,025	1,025
Child Care Instructional Materials		920	920	920			920	920
BFAP Administration	1,531	928,789	930,320	930,320			930,320	930,320
TANF		45,386	45,386	43,731	1,655		45,386	45,386
Transfer Ed and Articulation	11,190		11,190	11,190		6,128	5,062	5,062
School to Career	2,638		2,638	2,638		405	2,233	2,233
TTIP Telecom & Technology	282,730	104,664	387,394	387,394		247,484	139,910	139,910
Instructional Equipment	3,060,928	744,593	3,805,521	3,805,521		3,020,443	785,078	785,078
Lottery Instructional Materials	1,091,138	915,102	2,006,240	289,208	625,894		915,102	768,699
CalGrant B & C		1,112,530	1,112,530	1,112,739	8,579		1,121,318	1,112,529
Calworks	5,343	322,934	328,277	328,277		9,088	319,189	319,189
Miscellaneous State Assistance	231,432	216,728	448,160	436,481		156,215	280,266	280,266
Total State categorical awards and allowances			\$ 16,980,429	\$ 705,853	\$ 3,620,952	\$ 14,065,330	\$ 13,831,363	

See accompanying notes to supplemental information.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF WORKLOAD MEASURES FOR
STATE GENERAL APPORTIONMENT**

Annualized Attendance as of June 30, 2006

	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Revised Data</u>
Categories			
A. Credit full-time equivalent student (FTES)			
1. Weekly census	24,181		24,181
2. Daily census	646		646
3. Actual hours of attendance	5,157		5,157
4. Independent study work experience	<u>2,174</u>		<u>2,174</u>
Total	<u><u>32,158</u></u>	<u><u>-</u></u>	<u><u>32,158</u></u>
B. Noncredit FTES			
1. Actual hours of attendance	368		368
C. Gross square footage			
1. Existing facilities	1,732,413		1,732,413
2. New facilities	212,388		212,388
D. FTES in New Facilities	1,532		1,532

See accompanying notes to
supplemental information.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF ANNUAL APPRENTICESHIP HOURS
OF INSTRUCTION**

Annualized Attendance as of June 30, 2006

	<u>Reported Annual Hours</u>
Reporting periods:	
July 1 - December 31, 2005	135,949
January 1 - April 15, 2006	127,147
April 16 - June 30, 2006	<u>130,570</u>
Total	<u><u>393,666</u></u>

See accompanying notes to
supplemental information.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
(CCFS-311) WITH AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2006

There were no adjustments proposed to any of the District's funds.

See accompanying notes to
supplemental information.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

NOTES TO SUPPLEMENTAL INFORMATION

1. PURPOSE OF SCHEDULES

A - Schedule of Federal and State Financial Assistance

OMB Circular A-133 requires a disclosure of the financial activities of all Federally funded programs. To comply with A-133 and State requirements, this schedule was prepared by the District. Differences exist between the revenues shown on the schedule and the basic financial statements for the following reasons:

- Various program revenues are recorded in the current year for prior year claims, related expenditures were incurred in prior years.
- Amounts reported as revenue may not represent final claim amounts, due to the timing of filing the final claims, and the closing of the District's records.

B - Schedule of Workload Measures for State General Apportionment

Full-time equivalent students is a measurement of the number of students attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to community college districts. This schedule provides information regarding the attendance of students based on various methods of accumulating attendance data.

C - Schedule of Annual Apprenticeship Hours of Instruction

This schedule provides information regarding annual apprenticeship hours of instruction for reporting periods during the year ended June 30, 2006.

D - Reconciliation of Annual Financial and Budget Report (CCFS-311) with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the CCFS-311 to the audited financial statements.

**INDEPENDENT AUDITOR'S REPORT
ON STATE COMPLIANCE REQUIREMENTS**

Board of Trustees
Foothill-De Anza Community
College District
Los Altos Hills, California

We have audited the basic financial statements of Foothill-De Anza Community College District for the year ended June 30, 2006, and have issued our report thereon dated September 29, 2006.

Our audit was made in accordance with auditing standards generally accepted in the United States of America and the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our audit referred to above, we selected and tested transactions and records to determine the District's compliance with the following State laws and regulations in accordance with Section 400 of the Chancellor's Office's *California Community Colleges Contracted District Audit Manual* (CDAM):

General Directives

Management Information System Implementation – Required Data Elements

Administration

Apportionments – Apportionment for Instructional Service Agreements/Contracts
Apportionments – Residency Determination For Credit Courses
Apportionments – Concurrent Enrollment of K-12 Students In Community College Credit Courses
Apportionments – Enrollment Fee
Apportionments – Students Actively Enrolled
Fiscal Operations – Salaries of Classroom Instructors (50 Percent Law)
Open Enrollment
Minimum Conditions – "Standards of Scholarship"
Student Fees – Instructional Materials Fees and Health Fees

Student Services

Matriculation – Uses of Matriculation Funds
CalWorks – Use of State and Federal TANF Funding

INDEPENDENT AUDITOR'S REPORT
ON STATE COMPLIANCE REQUIREMENTS
(Continued)

Special Programs

Extended Opportunity Programs and Services – (EOPS) Allocation of Costs

Educational Services

Non-credit Courses

Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, the Foothill-De Anza Community College District complied, in all material respects with the aforementioned requirements, except as described in the Schedule of Audit Findings and Questioned Costs section of this report, for the year ended June 30, 2006.

This report is intended solely for the information and use of the Audit and Finance Committee, District management, the Board of Trustees, and the Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Perry-Smith LLP

Sacramento, California
September 29, 2006

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Foothill-De Anza Community
College District
Los Altos Hills, California

We have audited the basic financial statements of Foothill-De Anza Community College District as of and for the year ended June 30, 2006, and have issued our report thereon dated September 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Foothill-De Anza Community College District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Foothill-De Anza Community College District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

(Continued)

This report is intended for the information of the Audit and Finance Committee, District management, Board of Trustees, and the Federal and State awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Perry-Smith LLP

Sacramento, California
September 29, 2006

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Trustees
Foothill-De Anza Community
College District
Los Altos Hills, California

Compliance

We have audited the compliance of Foothill-De Anza Community College District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2006. Foothill-De Anza Community College District's major Federal programs are identified in the accompanying schedule of Federal financial assistance. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Foothill-De Anza Community College District's management. Our responsibility is to express an opinion on Foothill-De Anza Community College District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Foothill-De Anza Community College District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Foothill-De Anza Community College District's compliance with those requirements.

In our opinion, Foothill-De Anza Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2006.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

(Continued)

Internal Control Over Compliance

The management of Foothill-De Anza Community College District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Foothill-De Anza Community College District's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Audit and Finance Committee, District management, Board of Trustees, and the Federal and State awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than those specified parties.

Perry-Smith LLP

Sacramento, California
September 29, 2006

FINDINGS AND RECOMMENDATIONS

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

June 30, 2006

FINANCIAL STATEMENTS

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Reportable condition(s) identified not considered
to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements
noted? _____ Yes X No

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Reportable condition(s) identified not considered
to be material weakness(es)? _____ Yes X None reported

Type of auditor's report issued on compliance for
major programs: Unqualified

Any audit findings disclosed that are required to be
reported in accordance with section 510(a) of
Circular A-133? _____ Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.063, 84.033, 84.007, 84.116	Student Financial Aid Cluster

* Clustered

Dollar threshold used to distinguish between Type A
and Type B programs: \$ 334,914

Auditee qualified as low-risk auditee? _____ Yes X No

STATE AWARDS

Internal control over State programs:

Material weakness identified _____ Yes X No

Reporting conditions identified
not considered as material
weakness _____ Yes X No

Type of auditor's report issued
on compliance for State
programs Qualified

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

SUMMARY OF FINDINGS AND RECOMMENDATIONS

June 30, 2006

1. DE ANZA ASSOCIATED STUDENT BODY

Criteria

Internal Controls – Safeguarding of Assets

Condition

- Sub-Receipt books for student clubs/organizations that perform fundraisers are not submitted to the student accounts office.
- The student accounts office does not receive a listing of planned student fund raising activities on a consistent basis.

Effect

The student accounts office is not able to ensure all funds collected by student organizations is actually submitted for deposit.

Cause

- The methods used by the clubs/organizations to track the collection of funds are not consistent throughout the student body as some organizations do not follow procedures including the completion of receipts for funds received.
- The Inter Club Council (ICC) Fundraising Form developed by the District and made available to the student organizations is not consistently utilized.

Fiscal Impact

Not applicable.

Recommendations

- Sub-receipt books should be issued and utilized by the individual student clubs/organizations. Further, the process utilized for the collection of funds should be standardized to require receipts and fundraising summaries which detail how the funds were generated.
- We recommend that the Associated Student Body cashier's office require the ICC Fundraising Form be submitted prior to any fundraiser.

Corrective Action Plan

The District agrees with the finding and will take corrective action.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

SUMMARY OF FINDINGS AND RECOMMENDATIONS

(Continued)

June 30, 2006

2. BOOKSTORE

Criteria

Internal Controls – Safeguarding of Assets

Condition

- Return logs are not consistently being approved by a supervisor or other bookstore employees.
- Periodic audits of the "return and void" processes are not being performed by the Senior Accountant, Supervisor.

Effect

Potential misappropriation of assets.

Cause

District personnel may not have adequate training and/or enough personnel.

Fiscal Impact

Not applicable.

Recommendation

- All returns should be reviewed and approved by another employee who is not processing the transaction.
- The District should ensure the bookstore has the necessary personnel and is given sufficient oversight to implement and follow documented internal control procedures.

Corrective Action Plan

The District agrees with the finding and will take corrective action.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

SUMMARY OF FINDINGS AND RECOMMENDATIONS

(Continued)

June 30, 2006

3. FOUNDATION

Criteria

Internal Controls – Safeguarding of Assets

Condition

Deposits are not consistently made in a timely manner.

Effect

Potential misappropriation of assets.

Cause

Checks are being received in locations on the District's campuses other than the Foundation office.

Fiscal Impact

Not applicable.

Recommendation

All checks should be forwarded to the Assistant Director in a timely manner so they can be recorded and processed.

Corrective Action Plan

The District agrees with the finding and will take corrective action.

4. CHILD DEVELOPMENT CENTER

Criteria

Internal Controls – Safeguarding of Assets

Condition

Deposits are not consistently made in a timely manner.

Effect

Potential misappropriation of assets.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

SUMMARY OF FINDINGS AND RECOMMENDATIONS

(Continued)
June 30, 2006

4. CHILD DEVELOPMENT CENTER (Continued)

Cause

Procedures to process cash receipts when the Administrative Assistance is absent have not been developed.

Fiscal Impact

Not applicable.

Recommendations

Alternative procedures should be implemented for when the Administrative Assistant is out of the office and unavailable to make deposits.

Corrective Action Plan

The District agrees with the finding and will take corrective action.

5. DISTRICT SELF-INSURANCE ACTIVITIES

Criteria

Internal Controls – Safeguarding of Assets

Condition

A recent actuarial study has not been performed for the District's worker's compensation program to support the District's liability for outstanding claims.

Effect

Without regular actuarial studies the potential to misstate the known and incurred but not reported liability exists.

Cause

The District has not contracted for the performance of an actuarial valuation of workers' compensation claims liability.

Fiscal Impact

Not applicable.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

SUMMARY OF FINDINGS AND RECOMMENDATIONS

(Continued)

June 30, 2006

5. DISTRICT SELF-INSURANCE ACTIVITIES (Continued)

Recommendation

An actuarial study should be performed at a minimum once every three years in order to evaluate the factors used to determine the liability.

Corrective Action Plan

The District agrees with the finding and will take corrective action.

6. FLINT CENTER SUITE SALES

Criteria

Internal Controls – Safeguarding of Assets

Condition

The Flint Center is processing the sales of theater suites through the Foothill-De Anza Community Colleges Foundation's general fund.

Effect

The Flint Center's financial statements do not properly reflect sales related to box office suites.

Cause

The District had established procedures several years ago related to suite sales to provide Flint Center patrons with potential tax benefits for unused suite tickets, however, the process incorrectly records revenue in the Foundation fund instead of in the Flint Center Fund.

Fiscal Impact

Not applicable.

Recommendation

The Flint Center should process suite ticket sales including recognizing revenue from the sales in the Flint Center Fund.

Corrective Action Plan

The District agrees with the finding and will take corrective action.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

SUMMARY OF FINDINGS AND RECOMMENDATIONS

(Continued)

June 30, 2006

STATE COMPLIANCE

7. NON-CREDIT COURSES

Criteria

Education code section 70901; CCR Title 5 Sections 55002(c), 55150, and 58050; Memo issued by Chancellor Drummond titled *Requirements for Claiming Apportionment for Noncredit Courses – Self Assessment Checklist for Compliance due into System Office* issued April 2005

Condition

The District did not complete the required self-assessment checklists for noncredit courses.

Effect

The District is not in compliance with the requirements for Noncredit Courses.

Cause

The District did not complete the required Noncredit course self-assessment checklists.

Fiscal Impact

Not applicable.

Recommendation

We recommend the District ensure all required self-assessment checklists be completed for all Noncredit Courses.

Corrective Action Plan

The District agrees with the finding and will take corrective action.

8. 50% LAW – SALARIES OF CLASSROOM INSTRUCTORS

Criteria

Education Code 84362, commonly known as the 50 Percent Law, requires that a minimum of 50% of the district's Current Expense of Education (CEE) be expended during each fiscal year for "Salaries of Classroom Instructors."

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

SUMMARY OF FINDINGS AND RECOMMENDATIONS

(Continued)

June 30, 2006

STATE COMPLIANCE (Continued)

8. 50% LAW – SALARIES OF CLASSROOM INSTRUCTORS (Continued)

Condition

A portion of salaries allocated to reassigned time were not properly charged to the Non-Instructional Salary Object Code, and thus included in the Salaries of Classroom Instructors (SCI).

Effect

While still in compliance with the 50% threshold requirements, the District did not comply with the inclusion of the proper elements in the initial calculation of 50% law requirements.

Cause

The condition was caused by a lack of reporting of re-assignments by the campuses to the District's Human Resources Department.

Fiscal Impact

Not applicable.

Recommendation

The District should implement procedures for the individual campuses to report re-assignments to the District's Human Resource Department to ensure budget allocations are made appropriately and in accordance with the 50% law compliance calculation.

Corrective Action Plan

The District agrees with the finding and will take corrective action.

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2006

Finding	Recommendation	Current Status	District Explanation if Not Fully Implemented
1. De Ana Campus Center – Food Service			
There are no written rental or vendor agreements with food vendors.	The District should prepare written agreements to be signed by District personnel and vendors for food services.	Implemented.	
2. Foundation			
Numbered receipts are not issued for each individual check or cash receipt and the transmittal sheets used to record checks are also not pre-numbered.	All deposits should be tracked by pre-numbered receipts and transmittal sheets, or a deposit log should be maintained and reconciled to all cash receipts.	Implemented.	
3. Child Development Center			
The Staff Assistant currently receives the funds from the parents, logs in checks received, posts the funds to individual student accounts, and prepares the deposit.	The District should implement procedures to provide adequate separation of duties for the cash receipts process at the Child Development Center.	Implemented.	
The Child Development Center does not receive any documentation of the payments made by parents to the Administration office when receiving cash or credit cards since these payments are made through the Cashier's office.	The Administration office should send a report detailing payments made so the Child Development Center can properly document and reconcile cash receipts.	Implemented.	
4. Middlefield Cash Receipts			
There are no formal control procedures in place for teachers who receive payments in the classroom.	The District should implement formal procedures for the collection of cash receipts in the classroom, to include but not limit to: issuance of pre-numbered receipts to students, maintenance of checks in a secured location, submittal of deposits and receipts in a timely manner.	Implemented.	

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

(Continued)
June 30, 2006

Finding	Recommendation	Current Status	District Explanation if Not Fully Implemented
5. Journal Entries			
Each accountant is responsible for posting and reviewing their own journal entries. There is no review of entries posted.	Journal entries meeting a certain threshold determined by the District should be reviewed by an independent employee.	Implemented.	
6. Federal Compliance – Student Financial Aid – Federal Work Study			
The District only allocated 6.4% of its FWS allocation toward students employed in the community service activities.	We recommend the District monitor their allocation to students employed in community service activities in order to meet Federal requirements.	Implemented.	